

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary Public

Date: 10/17/2012

GAIN Report Number: RS1265

Russian Federation

Post: Moscow

Russia to Begin Selling Grain from the State Grain Intervention Fund

Report Categories:

Grain and Feed

Agricultural Situation

Approved By:

Levin Flake

Prepared By:

Yelena Vassilieva

Report Highlights:

The Russian Federation Deputy Prime Minister for the Agro-industrial Complex, Arkadiy Dvorkovich, has confirmed an earlier announcement by Prime Minister Medvedev that Russia will begin selling wheat from the State Intervention Fund (grain commodity interventions) on October 23rd. Details developed by the Ministry of Agriculture envisage that every week, up to 110,000 metric tons of wheat will be sold from the Intervention Fund to flour and feed millers in the Ural, Siberia, and the Far East federal districts. The starting price (minimum price) for milling wheat Class 3 will be 7,600 rubles (\$245) per metric ton (MT) and 7,200 rubles (\$232) per MT for Class 4 milling wheat.

General Information:

Background

The 2012 wheat crop in Russia is the lowest in the last 10 years. Industry analysts estimate it at 38-40 MMT (with the official USDA estimate at 38 MMT), and the worst crops were in the Southern Ural and Siberia federal districts. These districts have modern flour mills, and in recent years began developing animal production and feed milling industries as well. Given the lengthy distances from other wheat producing areas, market prices of wheat in Siberia and Ural were increasing faster than in other federal districts and, by mid-October, exceeded prices in the Central federal district. From the beginning of July 2012 up to mid-October the price of Class 3 wheat increased in the South Urals by 62 percent to 9,013 rubles (\$290) per MT, and in West Siberia – by 38 percent to 9,333 rubles (\$301) per MT. The market price of wheat Class 4 increased by 64 percent to 8,650 rubles (\$279) per MT in the South of Ural, and by 41 percent to 9,050 rubles (\$292) per MT in West Siberia (Note: for more information see GAIN Report RS1258 Grain and Feed October Update _ Moscow _ Russian Federation _ 10/1/2012.)

Intervention plans

In the beginning of October, Dmitry Medvedev, the Russian Prime Minister, reported that he made a decision to begin sales of grain from the State Intervention Fund. Subsequently, Arkadiy Dvorkovich, the Deputy Prime Minister for Agro-industrial Complex, confirmed that grain interventions will begin on October 23rd. On October 5th and October 8th the Russian Minister of Agriculture issued letters on the beginning of grain interventions. The first two sessions of selling grain from the Intervention Fund (so called grain commodity interventions) are scheduled for October 23rd and October 24th. The starting price (minimum price ex-warehouse) for sales of soft milling wheat Class 4 is set at 7,600 rubles (\$245) per MT, and the starting price for milling wheat Class 4 is set at 7,200 rubles (\$232) per MT. All wheat will be from the stocks procured by the government in MY 2008/2009.

As decided, on October 23rd and 24th the accredited participants (buyers) of the intervention sales will be only flour and feed millers from Siberia, Ural and the Far East federal districts. Moreover, feed millers are accredited only for buying wheat Class 4 from the intervention stocks located in Omsk and Novosibirsk oblast. Flour millers are accredited for buying wheat from all elevators. The list of basis elevators for October 23rd includes 15 elevators located in Altay kray, Kemerovo oblast, Krasnoyarsky kray, Omsk and Novosibirsk oblasts which store grain of the State Intervention Fund. According to the plan, the government will be selling up to 110,000 MT of wheat every week, and the volumes of wheat to be sold on October 23rd are 50,150 MT of wheat Class 3, and 4,850 MT of wheat Class 4.

Intervention Fund

According to Russian officials, as of the beginning of September the State Intervention Fund holds almost 4.8 MMT of grain, including 3.1 MMT of Class 3 wheat, 1.1 MMT of Class 4, wheat and 0.6 MMT of other grains, such as feed barley, food quality rye, and feed quality wheat Class 5. Elevators in the Siberia Federal District hold 42 percent of all intervention grain, and elevators in the Ural Federal District hold 10 percent, the rest is located at elevators of Volga Valley (29 percent), Central (7 percent), Southern (5 percent) and North Caucasus (4 percent) federal districts.

The announced start-up intervention prices are lower than the current market prices, but still the impact of intervention sales is not clear. From the date of the initial announcement of the selling prices, market prices of Class 3 wheat in the Southern Urals actually increased by 313 rubles (\$10) while prices in the

West Siberia decreased by 17 rubles (\$0.50). Industry analysts worry that the beginning of intervention sales in the selected districts, although driven by poor crops, may lead to price distortions in the market. Although these sales may dampen prices in the Eastern regions of Russia, due to the very far distance and transportation costs, they are not expected to significantly lower prices in European Russia.

The announced minimum selling prices are 30-41 percent higher than the price the grain was purchased for into the intervention fund in marketing year 2008/2009. The average price of purchased Class 3 wheat in the 2008/09 marketing year was 5,845 rubles per MT, and price of purchased Class 4 wheat was 5,102 rubles per MT.